Washington State Child Care Coordinating Committee

Policy Options Paper

Working Connections Child Care

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Working Connections Child Care (WCCC) is a statewide child care subsidy program administered by the Division of Child Care and Early Learning (DCCEL). Its primary purpose is to pay part of the child care costs for low income working families whose income ranges up to 200 % of the Federal Poverty Level. All families contribute to the cost of child care, called the parent co-pay. There is no waiting list for service at this time.

WCCC FACTS

- 126,500 children were served in FY 2002.
- 72,000 families were served in FY 2002.
- 42,000 families were served each month FY 2002.
- 25% of children in licensed care receive subsidies.
- Approximately $300 million was paid on behalf of families using child care subsidies in 2002.
- The subsidy program costs approximately $25 million every month (FY 2002).

WHY THIS POLICY ANALYSIS?

The Washington State Child Care Coordinating Committee (CCCC) has a legislative mandate to advise the State of Washington on child care policy. The Subsidy Sub-committee of the CCCC decided to provide an objective cost-benefit analysis on policy options for the Working Connections Child Care program to aid the State in making budget decisions. This paper includes the elements of eligibility, co-pay, provider rates and various incentive and bonus payments. The CCCC received assistance from Division of Child Care and Early Learning and the Northwest Finance Circle to gather data and conduct the analysis for this paper.

Assumptions

- This paper assumes no additional funding for WCCC at this time. Additional cost associated with any option must be balanced with offsetting reductions, thereby maintaining fiscal neutrality.
- This paper does not include analysis of the impact on child care quality of these options.
- The rate enhancement for care for children with special needs will not be discussed in this paper, as DCCEL is committed to maintaining this program.

Many states that have been depending on excess TANF funds to support child care were recently forced to make cuts in child care subsidy programs. Washington was no exception. In 2002 DCCEL reduced income eligibility guidelines for families and in January 2003, DCCEL made $20 million in reductions in the state's annual child care budget by increasing parent co-pays, eliminating the non-standard hour bonus and cutting contracts that were designed to improve the quality of child care programs.

Program Statistics

	Actual FY 02 Cost	Number and Percent of WCCC Enrolled Families Used in FY 02	Number and Percent of WCCC Participating Providers Paid in FY 02
Activity Fee	$1.0 million	9,710 13.5%	1,294 16%
Infant Bonus	$2.0 million	6,722 9.3%	2,851 36%
Registration Fee	$2.6 million	2,370 45%	5,244 66%
Non Standard Hours (Eliminated 3/03)	$6.4 million	8,310 11.6%	2,750 35%
Eligibility between 185-200% of FPL	$7.1 million	5,066 7%	
Eligibility between 175-200 % of FPL	$14.5 million	8,612 12%	
Co-Pay (Increased 3/03)	Est. Sav. FY04 $23.9 million		

November, 2003

Infant Bonus, Activity & Registration Fees

Infant Bonus

In September 1998 WCCC began providing a one-time bonus to child care providers when they enrolled infants. This infant bonus was intended to provide an incentive to providers to care for infants and thereby increase the access for families for care for their young children.

WCCC program pays licensed or certified child care providers a one-time bonus of $250 for each infant they newly enroll in care if:
1) the child is less than 12 months of age,
2) the child care facility has not already received a bonus for that infant and
3) the provider cares for the infant a minimum of 5 days.

Activity Fee

The WCCC program will pay up to $20 per child, per month to child care programs for a variety of activities (field trips, one-time items for crafts, cost of admissions to special activities, snacks at special activities, travel for special activities). The fee must be charged to all parents, subsidized and unsubsidized, in order for the facility to be eligible for reimbursement. This gives subsidized children the same access to enrichment activities as children from private paying families.

Registration Fee

The WCCC program will pay up to $50.00 per child for initial enrollment with a child care provider and annually if the child care provider requires this annual fee of all parents, subsidized and unsubsidized.

The fee can be paid more than once per year if the child changes providers and the new provider also charges a registration fee.

POLICY OPTIONS:

1. **Maintain any or all of the bonus/fees**
2. **Maintain any or all with changes**
   An alternative would determine a maximum amount a child care provider could receive in a year based on enrollment of subsidy children.
3. **Eliminate any or all of the bonus/ fees**

What do other states do?

- 30 states pay a higher reimbursement rate for infants, than they do for older children.
- 9 states pay a higher infant reimbursement rate than Washington.
- 38 states pay a lower infant reimbursement rate than Washington.
- States varied in whether they covered registration, field trips or other activity fees.[1]

POLICY CONSIDERATIONS:

Infant Bonus

- Approximately 6,480 families, and their 6,800 infants used the infant bonus to access child care in FY 2002. This is about 9% of the subsidized families enrolled in WCCC.
- 2,851 providers received the bonus in FY 2002. Payments to providers averaged $684 annually and ranged between $250 – $8,500.
- DCCEL paid out approximately $2 million in FY 2002.
- The Infant Bonus is currently funded through the Infant-Toddler Quality earmark.

"Child care assistance is integral to any effort to move families from welfare to work and to help low-income parents stay employed. Single mothers of young children are 40 percent more likely to still be employed after two years if they receive help paying for child care".[2]

Activity Fee

- Approximately 9,720 families and their 13,100 children had activity fees paid for them in FY 2002. This is about 13.5% of subsidized families enrolled in WCCC.
- 1,294 providers received the activity fee in FY 2002; payments to providers averaged $776 annually and ranged between $1 – $22,324.
- DCCEL paid out approximately $1 million in activity fees in FY 2002 which is about 0.3% of the WCCC budget.
- The average cost for activity fees per child/per year was $76.

Registration Fee

- Approximately 32,370 families had their registration fee paid for them in FY 2002. This is about 45% of subsidized families enrolled in WCCC.
- 5,244 providers received the registration fee in FY 2002; payments averaged $505 annually and ranged between $5 – $12,100.
- DCCEL paid out approximately $2.6 million in registration fees in FY 2002.

"How much providers are paid, as well as how easily they can navigate the system, may ultimately affect their willingness to participate, their quality of care, and their financial stability".[3]

Non-Standard Hours Bonus

Non-Standard Hours Bonus

The Non-Standard Hours bonus, beginning in May, 1999, was provided to help families access care during evenings, nights and weekends. The bonus could result in a reimbursement to the child care provider at a rate higher than their private-paying rate and was an incentive for providers to serve WCCC participants.

The Non-Standard Hour bonus was eliminated in March 2003.

If a licensed child care program was expecting to provide care for a child before 6:00am or after 6:00pm or on weekends for a total of 15 hours or more per month, then the bonus was paid in addition to the regular rate paid to providers. A rate was set for each region ranging from $78 to $109 per child per month for FY 2002. The rate was the same for both family child care homes and centers and was the same whether the child was attending full time or part time.

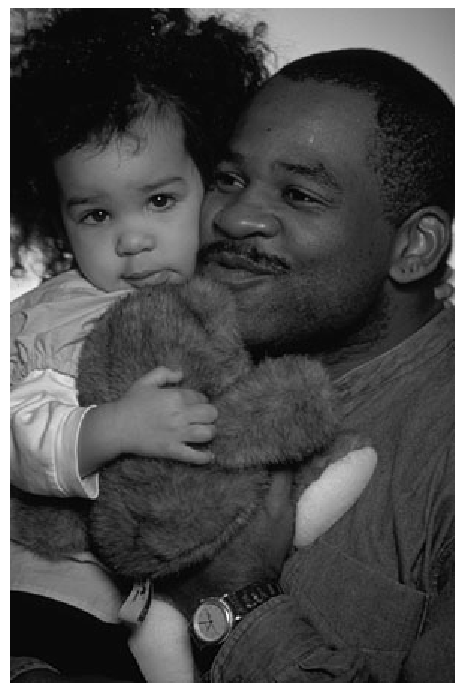
POLICY OPTIONS:

1. **Reinstate the Non-Standard Hours Bonus.** This alternative would reinstate the NSB that was discontinued in March 2003.
2. **Reinstate with changes.** An alternative would increase the number of hours of care needed per month from 15– 22 hours outside the standard 6:00 am – 6:00 pm, Mon. – Fri.
3. **Maintain elimination of bonus.** This alternative would maintain the elimination of the NSB that ended in March 2003.

In a recent survey of all of the 31 NSH providers serving Grays Harbor and Pacific Counties, 32% indicated they eliminated NSH care and another 19% reduced their NSH care as a result of the elimination of the bonus. In these small coastal towns such as Westport, Ocean Shores, Long Beach and Ilwaco many jobs are in the hospitality industry requiring evening and weekend shifts. (Spring 2003)[4]

POLICY CONSIDERATIONS:

- Approximately 8,352 families and their 10,700 children benefited from the non-standard hours bonus in FY 2002. This is over 10% of the subsidized families enrolled in WCCC.
- Many entry-level and low paying jobs in the service industries require evening and weekend shifts.
- 2,750 providers received a bonus for expecting to provide non-standard hour care in FY 2002. Payments to providers averaged $2,310 annually and ranged from $5 – $64,977 in FY 2002.
- The average annual cost per child was about $600 in FY 2002, the highest unit cost of all of the bonuses and fees.
- Reinstating the NSB would likely cost about $6.4 million annually, which is about 2% of the total WCCC budget, based on FY 2002 costs.
- Reinstating the NSB with additional hour requirements would presumably cost less but there are no estimates available.



"*Studies show that the number of workers working non-standard hours is increasing. The increase in non-standard hour workers is due to the growing service economy".*[5]

The Impact of Eligibility Level on Affordability

Program Eligibility Level

The income level at which eligibility for the subsidy program is set is an important factor in maintaining affordability of child care for low income working parents.

WCCC uses the federal poverty level (FPL) as the income standard for setting eligibility levels. The FPL is a national standard that is not adjusted for regional differences in cost of living. Therefore the income described by the FPL may provide a more adequate level of subsistence in some areas than in others.

In 2002 the maximum eligibility level was reduced from 225% of the FPL to 200%. Further reductions in the eligibility level are potential ways of reducing costs to meet the challenges of higher costs in other subsidy areas like higher provider reimbursement rates.

When families reach the income level at which they are no longer eligible for a subsidy, many choose lower cost options for child care such as friends and family and part time family home care.[6]

Families' whose income is just above the current eligibility level of 200% of FPL, would need to spend up to 35% of their income on child care in order to use full time center based care. If the eligibility level is decreased to 185% or 175% FPL and the family were to use center based care, the cost could consume even a larger portion of their income and bring their remaining resources close to the level of a family on the subsidy program at 48% of FPL.

POLICY OPTIONS:

1. **Maintain eligibility level at 200% FPL**
2. **Decrease the eligibility level from 200% to 185 % FPL**
3. **Decrease the eligibility level from 200% to 175% FPL**
4. **Create a waiting list of eligible families to limit enrollment**

> *"With state and county budgets hemorrhaging money, leading to cutbacks across the country, low-income working families are taking desperate measures to hang onto child care subsidies and stay off welfare. They are moving across county lines, cutting their work hours, and even beginning to look for lower-paying jobs."*[7]

POLICY CONSIDERATIONS:

Reducing Eligibility to 185% FPL

- DCCEL could redirect $7.1 million to another component of the subsidy program.
- 5,066 families who are currently eligible for WCCC subsidies will no longer be eligible, which is 7% of WCCC enrolled families.

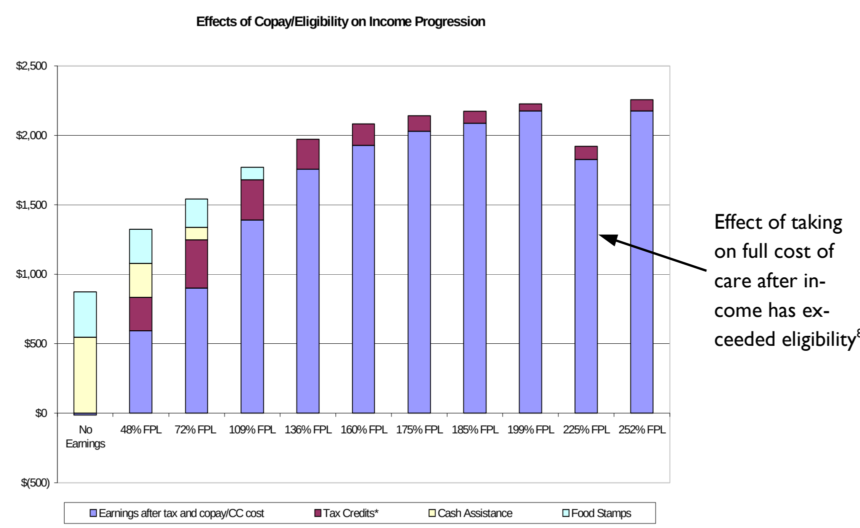
Reducing Eligibility to 175% FPL

- DCCEL could redirect $14.5 million to another component of the subsidy program.
- 8,612 families who are currently eligible for WCCC subsidies will no longer be eligible, which is 12% of WCCC enrolled families.

Create a waiting list

- If the lowest-income families are prioritized for enrollment the result will be similar to reducing eligibility but to an undetermined level.
- It is important to avoid creating an incentive for a family to go on TANF to access child care as TANF families have first priority to WCCC enrollment.

Impact on income progression as family income increases



What do Other States Do?

Washington's Eligibility level falls mid range among the states when calculated as a percentage of the State Median Income. Fourteen states have eligibility levels similar to Washington's, 26 states serve up to higher incomes, and 9 states have a lower eligibility level.[9]

The Impact of Co-pay on Affordability

Co-payments

The co-pay amounts which parents must contribute to the cost of child care are important factors in maintaining affordability of child care for low income working parents. Co-pays also affect providers because they can be difficult to collect.

In FY 2003, DCCEL raised the child care co-payments by $25 per month for all families above 82 percent of the FPL, freeing $10.4 million for other purposes.

The chart at right shows the relationship between the actual cost of basic necessities for a family and the Federal Poverty Level (FPL).[10] The cost of these basic necessities for a working parent with two children was calculated for each county and several sub-areas within Washington State in 2001. Tax Credits are incorporated, but other means-tested public benefits are not. The intention was to identify what it would take for a low income family to be self sufficient without public assistance.

The Working Connections Child Care program currently serves families who have income at or below 200% of the Federal Poverty Level. For example, an eligible parent with two children has a gross monthly income of less than $2,544. The average cost of the basic necessities of life: housing, child care, food, transportation, health care, taxes, and other expenses for this family range from $2,850 in Okanogan County to over $4,000 per month in King County.

Without the child care subsidy, many families in this income range would have difficulty in paying for child care and still meeting the basic expenses of life.

The percent of income families contribute to the cost of child care is another measure of affordability. Nationwide, 20% of families do not pay for child care at all. The average family pays 9% of their income for child care while the average low-income family pays 14% of their income.[11] The graph at right shows the effect of co-pay levels on the percent of income WCCC families pay toward the cost of care.[12]

POLICY OPTION:

Continue the co-pay amount at the new 2003 levels

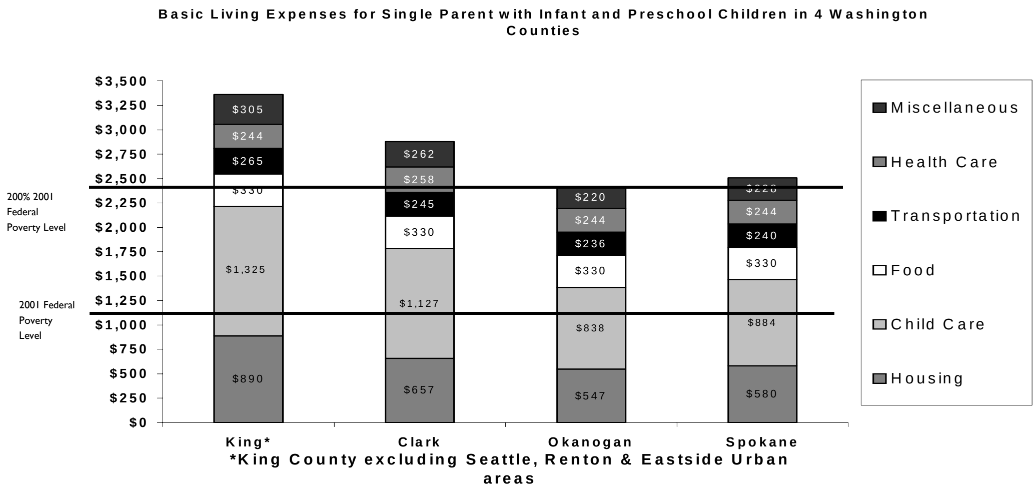
Evaluate the effects of this change before considering further change.

POLICY CONSIDERATIONS:

Three key factors must be considered in setting co-pay amounts levels:

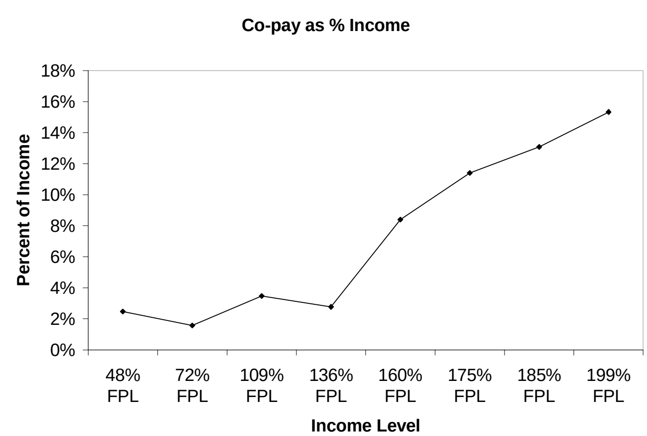
- Affordability with respect to poverty
- Affordability with respect to percent of income used for child care
- Impact on income progression as family income increases

Affordability with respect to Poverty



The 2003 Kids Count recommends that co-pays keep the cost of child care below 10% of family income to maintain affordability. On average, US parents pay 14% or more of their income toward child care.[13]

Affordability with respect to percent of income used for child care



Child Care Provider Reimbursement Rates

Provider Rates and the Market Rate Survey

Federal regulations require Washington State to conduct a market rate survey of child care providers. Subsidy rates are based on a "percentile" that measures the proportion of the child care market that the subsidy rate provides access to. The use of a uniform percentile across the state is designed to ensure that parents throughout the state using subsidies have equal access to providers regardless of where they live, the ages of their children, and the type of care that they choose to use.

Prior to welfare reform states were required to set rates at the 75th percentile; since that time Washington State has set provider rates based on the amount that the state could afford ranging from the 58th to the 74th percentile.

The number of children subsidized by Washington State has risen dramatically since welfare reform along with the cost of the child care subsidy program. Because of a large decline in the welfare or TANF caseload, Washington State was able to cover the increasing cost of the child care subsidy program by shifting dollars from TANF.

The TANF caseload is no longer declining and no funds have been available for a provider rate increase since January 2002 when the rates were set at the 58th percentile of the 2000 survey.

POLICY OPTIONS:

1. **Continue the current provider rates (58th percentile of the 2000 Market Rate Survey)**
2. **Raise provider rates to the 58th percentile of the 2002 Market Rate Survey**
3. **Raise provider rates to the 75th percentile of the 2002 Market Rate Survey**

Costs to Raise Provider Rates

Estimated costs for one fiscal year (July 2004 – June 2005):

- $27.7 million to raise provider rates to 58th percentile of 2002 survey
- $41.4 million to raise provider rates to 75th percentile of 2002 survey

POLICY CONSIDERATIONS:

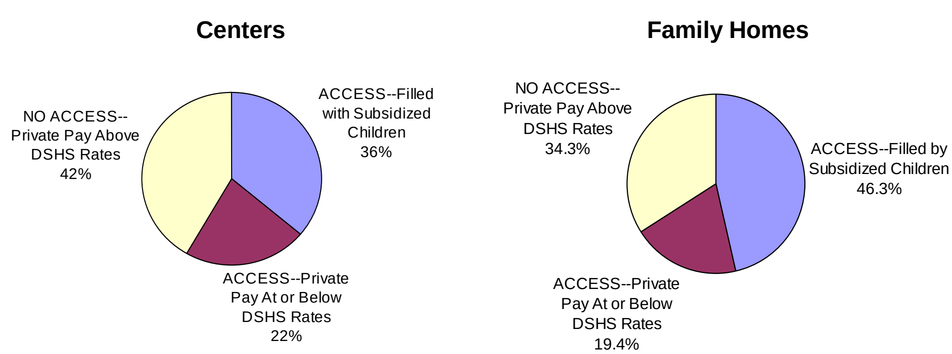
Providing Access to Licensed Care to Low-Income Working Families

Access to licensed care was estimated by adding together the number of slots filled by subsidized children and the number of slots filled by private pay children where the provider's rates were equal to or less than the DSHS rate. At the time of the 2002 survey DSHS rates provided access to 58% of center slots and 66% of home slots. At the time of the 2000 survey DSHS rates provided access to 61% of center slots and 71% of home slots.

Providing Access to Quality Care for Subsidized Children

Parents may still be finding providers that will care for children, but low subsidy rates may constrain providers in providing quality child care.

Access to Full-Time Care Provided by DSHS Subsidy Rates at the time of the 2002 Market Rate Survey



Washington State Child Care Coordinating Committee

Policy Recommendations

RECOMMENDATIONS

1. Exchange the funding for infant bonus payments for increased infant rates for all providers serving infants. The rate increase should be a flat increase across all providers serving infants, not a percentile increase. In this way all providers serving infants will realize the same rate increase. Special authorization for this rate should not be required.

2. Authorizing Workers will require proof that client has met their parent co-pay obligation prior to any authorization of change or renewal of authorization. This will help providers collect parent co-pays, increasing revenues for many providers who do not always collect this fee.

3. Study the impacts and implications of the current parent co-pay system for families and providers to determine the impacts and recommend potential co-pay changes for families at various levels. Information for this study should come from existing data and using existing surveys as much as possible. The caution is to use as little financial resources as possible to complete this study.

4. Exchange the funding for the current activity and registration fee payments for increased provider rates over all age categories (including infants). Similar to the infant rate increase the motivation was to increase provider reimbursement rates, reduce authorization layers and spread the financial benefit to all providers.

PRIMARY CONSIDERATIONS

- Enough resources for providers to receive reasonable reimbursement rates to stay in business
- Enough resources for families to use care; reasonable and affordable co-pay so children are not in jeopardy
- Eligibility guidelines should allow the most families/kids served as possible
- Safe, high quality and consistent child care for all children

Child Care Coordinating Committee

The Washington State Legislature established the Child Care Coordinating Committee in 1988 to advise policy makers. The Committee reports to the Legislature, the Governor and State agencies with strategies to improve the quality, availability and affordability of programs for early learning and out-of-school time.

Subsidy Sub-Committee

One of ten sub-committees of the Child Care Coordinating Committee, the Subsidy Sub-Committee promotes child care subsidies designed to increase the accessibility of high quality care for low-income families.

SOURCE NOTES

Bonuses and Fees References:
[1] *Table 3.2.2 –Subsidy Reimbursement Rate Ceilings By Category of Care*, National Care Information Center, www. nccic.org (2003)

[2] *State Budget Cuts Create a Growing Child Care Crisis for Low-Income Working Families*, Children's Defense Fund, March 2003

[3] Child Care Subsidy Policies and Practices: Implications for Child Care Providers, Gail Adams and Kathleen Snyder, Urban Institute, February 2003

NSH Bonus References:
[4] Coastal Community Action Program Child Care Resource and Referral serving Grays Harbor and Pacific Counties, 2003

[5] *Non-Standard Work Hour Child Care Project,* Child Care Resource and Washington State Referral Network, February 2000

Eligibility References:
[6] *Getting Help with Child Care Expenses,* Linda Giannarelli, Sarah Adelman, Stefanie Schmidt, Urban Institute, February 2003

[7] *ChildCare ActioNews*, 2003

[8] *The Self-Sufficiency Standard for Washington State*. Diana Pearce and Wider Opportunities for Women (2001)

[9] *Chart 3*.3 *Distribution of State Income Eligibility Limits as a Percentage of State Median Income (SMI),* National Child Care Information Center, www. nccic.org (2003)

Co-pay References:
[10] *The Self-Sufficiency Standard for Washington State*. Diana Pearce and Wider Opportunities for Women (2001)

[11] *Getting Help with Child Care Expenses,* Linda Giannarelli, Sarah Adelman, Stefanie Schmidt, Urban Institute, February 2003OFM Data, Special run done by Debra Fogarty Came, Office of Financial Management Washington State, June, 2003

[12] Data for graph from DCCEL, 2003

[13] *Essay - The High Cost of Being Poor: Another Perspective on Helping Low-Income Families Get By and Get Ahead.* Kids Count 2003, The Annie E Casey Foundation: Baltimore

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ACKNOWLEDGEMENTS

Special thanks to Rachael Langen, Laura Schrager, Debra Came, Dave Edie and Billie Young for providing information, editing, advice and support.

Subsidy Sub-Committee members representing family child care homes and centers, a community action council, resource and referral, a community health agency, government and parents participated in determining the recommendations for this report. Members came from Chimacum, Port Angeles, Everett, Edmonds, Seattle, Tacoma, Lacey, Ellensburg, Pasco and Spokane and included the following members: Flo Allen, Connie Celestine-Riley, Ruth Engle, Suzette Espinoza-Cruz, Carla Gira, Donna Horne, Marty Jacobs, Ruvine Jimenez, Nancy Martin, Lisa McDonald, Sherry Schleufer, Laura Schrager, Karen Seitz, Janet Staub, Kathy Thamm, Elizabeth Bonbright Thompson, Linda Tyner, and Janie Woods. Bonnie Snedeker facilitated.